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BOARD OF DIRECTORS ANNUAL STUDY

For the past ten years, Korn/Ferry International has surveyed the board practices and policies of 1,000 of America's largest industrial and service corporations. Again this year, we invited 100 of the the largest financial institutions plus selected smaller ones to participate in our nationwide study and we are gratified that 76 – a record for the study – responded. Of these, 65 have assets over $2 billion.

We believe it is beneficial for directors of banks and financial institutions to be able to compare and evaluate their board practices with others in their industry. We have, therefore, once again isolated the responses of these institutions in this special supplement to our Tenth Annual Study.

Banks and financial institutions continue to have the largest boards, averaging 19. They also continue to have the strongest preference for outside director dominance. Averaging four inside and 15 outside directors, 67 percent prefer at least a three-quarter outside director majority on their boards.

Financial companies have a definite preference for outside directors with business experience. Senior executives of other companies are represented on 96 percent of their boards, the highest percentage of any of the groups participating in this study. And, in response to a new question, 87 percent cite corporate experience as the primary consideration in asking a prospective director to sit on their boards – again higher than any other group of respondents.

Financial institutions once again lead the corporate community in appointing women and ethnic minorities to their board. And, reflecting the increasing importance of worldwide operations, they have the highest percentage of American international executives on their boards.

Although financial institutions have historically paid their directors less than the overall average, they have been consistently closing the gap over the past few years. Forty-three percent increased compensation this past year an aver-

age of $4,410, 39 percent more than the average increase of $3,170 for all respondents. If paid on an annual plus per meeting fee basis, as most are, the financial company directors now average $15,310 per year compared to $16,990 for all respondents.

We believe these highlights as well as the detailed results included in this supplement will be meaningful and useful to the boards of banks and financial institutions. We welcome your suggestions on how we might enhance next year's study.

Lester B. Korn

Richard M. Ferry

February 1983

SUMMARY OF FINDINGS

On a question-by-question basis, the following findings directly relate to bank and financial institution respondents. (Table 1) Where appropriate, key comparisons are made with all the participants in our study.*

1. Size of Board (Table 2)

Banks and financial institutions continue to have the largest boards of any of the groups responding to this survey. As they did last year, they average 19 outside directors. This is six more than all respondents and four more than the largest industrials ($5 billion and over).

2. Inside Directors vs. Outside Directors (Table 2)

Banks and financial institutions also have the strongest preference for outside director dominance of any of the responding groups. Averaging four inside directors and 15 outside directors, 88 percent stated a preference for a majority of outside directors (compared to 80% for all respondents). And 67 percent prefer that a minimum of three-quarters of their board be comprised of outside directors – considerably more than the 34 percent of all respondents stating this preference.

3. Board Composition (Table 3)

Senior executives of other companies are the largest source of outside directors for financial institutions. They are represented on 96 percent of these boards, more than the 88 percent for all respondents and, in fact, the largest percentage of any group responding to the survey. With retired executives of other companies comprising the second largest source, financial companies seem to place heavy emphasis on business experience in selecting outside directors. (Table 3A) Corroborating this, 87 percent cite corporate experience as the primary consideration for asking a prospective director to sit on their boards – again higher than any other group of respondents.

Financial institutions continue to have the highest percentage of women and ethnic minorities on their boards. This year, women sit on 66 percent of these boards compared to 41 percent for all respondents. Again, they are drawn

*611 corporations responded to our Tenth Annual Study. Industrial corporations account for 74 percent of the total of which 219 have sales in excess of $1 billion. Banks and financial institutions account for 12 percent, insurance companies for nine percent and retailers for five percent.

from sources where they have gained substantial management experience. Twenty-two percent are from academia, 18 percent are senior executives of other companies, and 12 percent are former government officials. Ethnic minorities, now on 43 percent of the financial boards (compared to 23% for all respondents), likewise have administrative experience. Forty-nine percent are senior executives of other companies and 18 percent are academicians. (Table 3B)

Banks and financial institutions also have the largest percentage of American international executives on their boards – 12 percent compared to eight percent for all respondents. Not unexpected in the current competititve climate, financial companies have the smallest percentage of investment bankers. Only three percent report investment bankers on their boards, well below the 24 percent for all respondents and down from the nine percent reported last year.

4. Is the Chairman also the CEO?
Is the CEO also the COO?

Banks and financial institutions report the highest percentage of chairmen who are also their chief executive officers, and, at the same time, the lowest percentage of chief executive officers who are the chief operating officers. Eighty-eight percent state that their chairman is their CEO (compared to 79% of all respondents) while only 32 percent state that the CEO is also the COO (compared to 40% of all respondents).

5. Committees (Table 4)

For the sixth consecutive year, the audit (97%), the compensation (86%)and the executive (84%) committees are the most prevalent among financial institutions. Only 21 percent, however, report having a finance committee – the smallest percentage of all responding groups. The nominating committee, reported by 59 percent, is up from 44 percent five years ago. (Table 4A) Along with the compensation and executive committees, the nominating committee plays an important role in the management succession process as well as participates in board committee appointments.

Once again, the executive committee is the largest, averaging eight members. The audit, compensation and benefits committees are each composed entirely of outside directors while the executive committee has the most inside directors – three. (Table 4B) Ninety-five percent of the financial respondents annually review committee appointments.

The executive committee meets most frequently – averaging seven meetings per year. The nominating committee has the fewest meetings – averaging only two per year. (Table 4C)

6. Compensation (Table 5)

Eighty-four percent of the bank and financial institution respondents pay their outside directors an annual plus per meeting fee– up from 78 percent last year. Eight percent pay an annual fee only and eight percent pay a per meeting fee only.

– Annual and Per Meeting Fee (84% of the respondents)

The average total annual compensation for outside directors of financial companies using this method of payment, while still below the $16,990 reported by all respondents, went up 10 percent from $13,880 last year to $15,310. This is 56 percent more than directors of financial companies earned just five years ago. The components consist of an average annual fee of $9,900 and an average per meeting fee of $619.

For comparative purposes, the "upper quartile averages" have been included in this section. Up nine percent from last year, this average is $24,650 for financial institutions, vs. $26,500 for all respondents. (Table 5)

– Annual Fee Only (8% of the respondents)

Among the companies that use this method of compensation, the average annual fee is $14,600– down from last year's average of $16,310. It is also below the $16,100 average for all respondents.

– Per Meeting Fee Only (8% of the respondents)

Financial companies continue to use this method of compensation more than all other respondents to the survey, although the percentage is down from last year's 12 percent. This year, the average per meeting fee is $530, an eight percent increase over last year's average of $490.

7. Committee Compensation

Ninety-one percent of the banks and financial institutions compensate their outside directors for serving on committees. Of these, 80 percent pay a per meeting fee only a significant increase from the 52 percent using this method of compensation last year. Fourteen percent pay an annual plus per meeting fee– down from 42 percent last year– and six percent pay an annual fee only.

Among the 80 percent that pay a per meeting fee only, fees for committee members range from a low of $370 per meeting for the public affairs committee to a high of $480 for the executive committee. This range is somewhat more than the $280 to $420 per meeting range of last year. Committee chairmen generally are compensated at a higher rate than committee members.

Seventy-six percent of the banks and financial institutions annually review committee fees.

8. Additional Compensation Information (Table 6)

Seventy-eight percent of the financial respondents compensate their outside directors even though they do not attend board meetings, the same as last year. Most (93%), however, limit that compensation to the annual fee only.

The highest paid outside director of a bank or financial institution averages $20,700 per year for board services, exclusive of consulting fees– an increase of 13 percent from last year's $18,400. This is only five percent less than the highest paid outside director among all respondents; last year the financial companies trailed all respondents by 12 percent. The gap between the upper quartile averages of financial respondents and all respondents is also closing. Last year the difference between the two was 23 percent; this year's difference is only seven percent ($34,070 for financial companies vs. $36,550 for all respondents). (Table 6) Sixteen percent also pay outside directors additional consulting fees.

Ninety-seven percent of the banks and financial institutions have a procedure whereby directors annually review and establish appropriate compensation for the chief executive officer. This is up from 91 percent last year and is the highest percentage of all respondents. Ninety-five percent have the same procedure for other senior officers– also the highest of all respondents.

Forty-three percent of the financial respondents increased compensation an average of $4,410 for their board members over the past 12 months. This is a sizable 39 percent more than the average increase of $3,170 for all respondents. However, for the next 12 months, 25 percent contemplate raising board fees, projecting a reduced average increase of $1,480. Ninety percent believe that their outside directors are adequately compensated.

Over the past couple of years, a steadily increasing percentage of financial respondents has established plans that allow outside directors to defer their board fees until retirement. This year, 63 percent offer such a plan– up from 51 percent last year and up from 37 percent two years ago. Another seven percent state that they are considering establishing one. Other benefits commonly offered include travel expense reimbursement (reported by 83%), directors liability insurance (76%), accident insurance (33%) and matching educational gifts programs (32%). Seventeen percent have a program that provides retirement benefits for outside directors.

9. Board Practices and Policies (Table 7)

The boards of the financial respondents averaged nine meetings during the past year– one fewer than reported in last year's survey. This is still, however, more than all respondents who average eight. Forty percent of the financial companies held at least one board meeting outside of their headquarters office or a major facility city during the year but only seven percent held one of these meetings outside the country.

The outside directors of these respondents averaged 114 hours annually on board-related matters. This is not only lower than the 123 hours averaged by all respondents, it is also down eight hours from last year. The upper quartile average, included for comparative purposes, is 174 hours. (Table 7A) Due to the reduced number of hours, outside directors of financial institutions earn $134 per hour, up 18 percent from last year's hourly rate of $114 and very near the $138 averaged by all respondents.

Fifty-one percent of the banks and financial institutions had an outside director resign during the past year – predominantly due to retirement. But 23 percent, more than any other group in the study, had an outside director resign because of conflicts of interest. Sixty-six percent added new outside directors and 29 percent added new inside directors to their boards. They continue to use the traditional and informal methods for identifying and selecting new directors of recommendation by the chairman and by other board members. Use of the formal nominating committee is now reported by 63 percent compared to 52 percent of all respondents. (Table 7B)

Prospective directors declined an invitation to serve on the boards of 18 percent of the financial respondents. The prime reason given was the time commitment involved (cited by 50%) followed by conflict of interest (29%). (Table 7C) Forty-six percent of these respondents expect a board vacancy in 1983.

Ninety percent permit their CEO to serve on outside public corporate boards, while only 32 percent permit their COO to do so. Ninety-two percent allow other key executives to serve on outside boards, but 16 percent limit the number of executives who are permitted to do so.

Ninety-five percent have a mandatory retirement age: 67 for their inside directors and 69 for their outside directors.

Thirty-eight percent of the financial respondents require all their directors to sign the Annual Report Form 10-K instead of the simple majority required by the Securities and Exchange Commission. This is considerably below the 57 percent of all respondents.

10. Issues (Table 8)

Financial results is clearly the most important issue facing boards of banks and financial institutions. It is ranked one, two or three by 99 percent of them. The second most important issue is strategic planning (ranked one, two or three by 69%) followed by day-to-day operations (42%), mergers and acquisitions (33%) and managerial succession (28%). When asked to rank the importance of these issues five years from now, the major differences are the increasing importance of strategic planning (ranked one, two or three by 77%) coupled with the decreasing importance of day-to-day operations (30%). Mirroring the concern with financial results, the greatest percentage of board meeting time (33%) is devoted to this issue followed by day-to-day operations (20%).

TABLE 1 – PARTICIPATING COMPANIES

Seventy-six of America's major banks and financial institutions participated in our Tenth Annual Study.

Size (Assets)	No. of Finan. Inst.	%
Under $2 billion	11	14.5%
$2 billion and over	65	85.5%
TOTAL	76	100.0%

Stock Exchange	No. of Finan. Inst.	%
New York Stock Exchange	38	50.0%
American Stock Exchange	1	1.3%
Over-the-Counter	26	34.2%
Other	11	14.5%
TOTAL	76	100.0%

TABLE 2 – PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Finan. Inst.	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Under $2 billion	2	14	16
$2 billion and over	5	15	20
Average	4	15	19

TABLE 3–BOARD COMPOSITION

3A. Are one or more of the following individuals on the board?

	1978 Financial Institutions	1982 Financial Institutions	1982 All Companies Surveyed
Senior Executive (other companies)	94.2%	96.1%	88.2%
Retired or Previously Employed Corporate Officer	50.0%	47.4%	46.8%
Commercial Banker	17.3%	17.1%	33.6%
Attorney (provides legal services to the company)	44.2%	35.5%	28.2%
Academician	59.6%	57.9%	50.4%
Investment Banker	13.5%	2.6%	23.7%
Major Shareholder (not officer of the company)	23.1%	18.4%	30.4%
Attorney (does not provide legal services to the company)	36.5%	38.2%	33.7%
Former Government Official	32.7%	32.9%	27.2%
Female	63.5%	65.8%	41.2%
Ethnic Minority Representative	36.5%	43.3%	23.2%
Non-U.S. Citizen	15.4%	19.7%	17.0%
International Executive (American)	15.4%	11.8%	7.5%
"Professional" Director	N/A	15.8%	19.5%
Retired Executive (other companies)	N/A	61.8%	66.3%

FIVE YEAR TREND

3B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	22.0%	18.2%
Sr. Executives (other companies)	18.0%	48.5%
Former Government Officials	12.0%	9.1%
Attorneys (do not provide legal services)	8.0%	12.1%

TABLE 4—COMMITTEES

4A. Which of the following standing committees does the board have?

Committee	Financial Institutions	All Companies Surveyed
Audit	97.4%	98.2%
Executive	84.2%	78.4%
Compensation	85.5%	86.3%
Finance	21.1%	35.7%
Nominating	59.2%	56.6%
Public Affairs	25.0%	11.8%
Corporate Ethics	6.6%	8.0%
Benefits	31.6%	32.9%

4B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	5	5
Executive	3	5	8
Compensation	0	5	5
Finance	2	4	6
Public Affairs	2	5	7
Nominating	1	5	6
Corporate Ethics	1	5	6
Benefits	0	5	5

4C. How many committee meetings were held during the past twelve months?

Committee	1981 Average Number of Meetings	1982 Average Number of Meetings
Audit	5	4
Executive	6	7
Compensation	5	4
Finance	6	4
Public Affairs	4	3
Nominating	3	2
Corporate Ethics	5	4
Benefits	4	3

TABLE 5—COMPENSATION

Annual and Per Meeting Fee (84.2% of Respondents)

Annual Fee Amount	%
Under $3,000	4.7%
$3,000-$4,999	7.8%
$5,000-$6,999	17.2%
$7,000-$10,999	40.6%
$11,000-$13,999	17.2%
$14,000 and over	10.9%
Unspecified	1.6%
TOTAL	100.0%
	(64)
Average Annual Fee	$9,900

PLUS

Amount Per Meeting	%
Under $250	3.1%
$250-$449	26.6%
$450-$599	29.7%
$600-$799	26.6%
$800 and over	12.4%
Unspecified	1.6%
TOTAL	100.0%
	(64)
Average Per Meeting Fee	$619

EQUALS

Total Annual Compensation	%
Under $5,000	6.3%
$5,000-$6,999	3.1%
$7,000-$10,999	14.1%
$11,000-$13,999	23.4%
$14,000-$16,999	15.6%
$17,000-$19,999	15.6%
$20,000 and over	21.9%
TOTAL	100.0%
	(64)
Average	$15,310

Annual and Per Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Banks & Financial Institutions	$15,310	$24,650
Insurance Companies	$13,950	$22,920
Retailers	$16,950	$25,410
Industrials		
Under $200 million	$ 8,720	$13,000
$200 million-$399 million	$11,900	$16,800
$400 million-$599 million	$14,580	$24,800
$600 million-$999 million	$15,430	$22,300
$1 billion-$2.999 billion	$18,300	$25,300
$3 billion-$4.999 billion	$26,760	$30,620
$5 billion and over	$24,960	$34,610
Average	$16,990	$26,500

TABLE 6—ADDITIONAL COMPENSATION INFORMATION

How much did the highest paid director receive in 1982 for all board services exclusive of any consulting arrangement?

Amount	%
Under $5,000	1.3%
$5,000-$10,999	9.2%
$11,000-$16,999	30.3%
$17,000-$24,999	30.3%
$25,000 and over	23.7%
Unspecified	5.2%
TOTAL	100.0%
	(76)
Average	$20,700

Highest paid director

Type and Size of Company	Average Compensation	Upper Quartile Average
Banks & Financial Institutions	$20,700	$34,070
Insurance Companies	$21,420	$39,460
Retailers	$18,980	$27,500
Industrials		
Under $200 million	$11,120	$20,300
$200 million-$399 million	$16,940	$27,270
$400 million-$599 million	$15,750	$23,380
$600 million-$999 million	$17,460	$25,000
$1 billion-$2.999 billion	$24,090	$36,160
$3 billion-$4.999 billion	$30,580	$42,500
$5 billion and over	$36,200	$49,100
Average	$21,720	$36,550

TABLE 7–BOARD PRACTICES AND POLICIES

7A. How many hours (estimated) do directors spend annually on board matters, including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	6.5%
41 to 70	23.7%
71 to 100	22.4%
101 to 160	18.4%
161 and over	22.3%
No Response	6.7%
TOTAL	100.0%
	(76)
Average	114 hours

Hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Banks & Financial Institutions	114	174
Insurance Companies	107	186
Retailers	93	147
Industrials		
Under $200 million	85	138
$200 million-$399 million	109	169
$400 million-$599 million	107	162
$600 million-$999 million	112	187
$1 billion-$2.999 billion	145	198
$3 billion-$4.999 billion	152	217
$5 billion and over	176	226
Average	123	189

7B. How are outside directors located for the board?

	%
Recommendation and known to board members	81.6%
Recommendation and known to chairman	78.9%
Selection or nominating committee	63.2%
Recommendation and known to other corporate officers	51.3%
Referral from executive acquaintances	7.9%

7C. Have any prospective directors declined an invitation to serve on the board during the past year?

	%
Yes	18.4%
No	81.6%
TOTAL	100.0%
	(76)

If yes, what is the predominant reason? (18.4%)

	%
Time Commitment	50.0%
Conflict of Interest	28.6%
Other	21.4%
TOTAL	100.0%
	(14)

TABLE 8—ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	70.6%	89.7%	98.5%
Strategic planning	11.9%	40.3%	68.7%
Day-to-day operations	10.6%	30.3%	42.4%
Mergers/Acquisitions	3.0%	16.4%	32.8%
Managerial succession	7.5%	10.5%	28.4%
Multinational issues	—	6.2%	13.9%
Public relations	—	4.5%	9.0%
Shareholder relations	—	4.6%	6.1%
Government relations	—	3.0%	6.0%
Corporate ethics	—	3.0%	3.0%

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